



# RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Lexington, North Carolina

U.S. Department of Housing and Urban Development

*Secretary Julián Castro*

## RAD Spotlight on Lexington, North Carolina:

### Financing Substantial Rehabilitation

The Lexington Housing Authority (LHA) in North Carolina is converting all 268 of its public housing units. Although the LHA has maintained its properties well, persistent cutbacks in the Capital Fund program have created an extensive capital needs backlog, estimated currently at over \$41,000 per unit in hard construction costs. RAD presented the LHA a way to raise private debt and equity necessary to finance these substantial repairs.



Without RAD, the LHA feared it may lose one of its properties, which would seriously impede its ability to meet the affordable housing needs of Lexington's low-income residents.

**Portfolio Strategy:** The LHA submitted applications for all three of its projects with the goal of accessing the financing necessary for substantial rehabilitation of their public housing units. For each project, the PHA will be combining Section 8 project-based assistance through RAD with tax-exempt bond financing, FHA mortgage insurance and 4% Low-Income Housing Tax Credits.

Through RAD, LHA will have the funding and stability necessary to make significant repairs that are responsive to the needs of their residents.

**Terrace Lane:** The present Eastview Terrace (100 units) and Helen Caple Village (38 units) will be combined into one project, Terrace Lane Apartments. The Eastview Terrace buildings were constructed in 1981, and Helen Caple Village was constructed in 1984. Units range from one-bedroom to four-bedroom family apartments. A physical needs assessment identified \$4.83 million in immediate capital needs at the time of LHA's application for RAD.

Both properties are located in stable neighborhoods. Helen Caple Village recently received new metal roofs, HVAC systems and some appliances. The Eastview Terrace units will be converted to all-electric HVAC, with new roofs and kitchen cabinets. Both properties will have new windows, doors, insulation, flooring, painting and substantial landscaping to better meet the needs of residents.

**Southside Village:** This complex contains 130 units, 66 one- and two-story buildings constructed in 1963. Units range from efficiencies to five-bedroom family apartments. A physical needs assessment identified \$4.62 million in immediate capital needs at the time of LHA's application for RAD.

The property is in a stable neighborhood, immediately adjacent to an elementary school and close to a Wal-Mart Super Center. Financing through the RAD conversion will allow LHA to upgrade all-electric utilities, install new roofs and kitchen cabinets, new windows, doors, insulation and new landscaping.

## What is RAD?

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The 1.2 million units in the Public Housing program have a documented capital needs backlog of nearly \$26 billion. As a result, the public housing inventory has been losing an average of 10,000 units annually through demolitions and dispositions. Meanwhile, the 38,000 units assisted under HUD's legacy programs are ineligible to renew their contracts on terms that favor modernization and long-term preservation. The current conditions of many of these properties inhibit investment and recapitalization efforts in the communities with the most need. By drawing on an established industry of lenders, owners, and stakeholders, RAD allows PHAs and owners of HUD-assisted housing to preserve affordable housing units which would otherwise be subject to vouchers and demolition. RAD creates greater funding certainty while allowing increased operational flexibility to empower PHAs and owners to serve their communities.

As of August 2014, 58 RAD applications have closed, covering some 5,123 units and representing over \$150 million in new investment. PHAs have submitted over 1,000 applications covering close to 185,000 units. RAD's initial statutory authority set a cap of 60,000 units of public housing and Mod Rehab housing that could seek to convert under RAD's first component. PHA demand exceeds RAD's current authority and HUD has requested that Congress lift the cap on eligible units to allow more PHAs to participate in the program.

**Rehabilitation Process:** The rehabilitation for all three properties will be performed in phases, estimated to be 12-15 weeks each. Prior to closing, the authority ceased leasing up units and has established about 20 units of vacancies. Residents in the early stages of the rehabilitation will be moved out of their units into vacant units on site, to accommodate the rehabilitation, and then back into a completed unit. After the first phase, it is expected that the majority of residents will be moved only once from their current location into a completed unit. LHA has adopted a comprehensive relocation plan and LHA's CEO Terrance Gerald, in a prior position with the Wilson Housing Authority, successfully executed a similar relocation plan in conjunction with that authority's Capital Fund Recovery Competition-financed rehabilitation. LHA is committed to meeting the needs of their residents throughout the relocation process.



**Financing Overview :** Overall, the conversion will provide for about \$41,000 per unit in hard construction costs. The major sources of financing are: \$1.0 million in LHA Capital Funds; a \$500,000 grant from the Affordable Housing Program of the Federal Home Loan Bank of Atlanta; \$10.2 million in first mortgage financing

from Wells Fargo; \$5.6 million in low-income housing tax credit equity, and \$0.9 million in interim income. These sources provide \$67,900 per unit, which will cover all the hard and soft costs of the transactions. The loan is at 3.85% interest, with a 34-year term. This transaction leverages LHA's \$1,000,000 in capital fund contribution to raise over \$20 million in other sources, a ratio of over \$20 for every \$1 in public housing capital funding.

The authority will receive 30% of the developer fee and 50% of future cash flow. The authority will also hold notes from the partnerships in non-cash transactions to finance the partnerships' initial payment under the lease. This structure increases the basis in the developments and significantly increases the tax credit equity received. LHA will also receive 1% bond origination fees of \$51,000 per project. The vouchers received from RAD will be under the project-based voucher program, and the authority will manage them as part of its housing choice voucher program.

**Ownership and Control:** As part of the tax credit transaction, the agency is retaining ownership of both the land and the buildings (the structures), which it is leasing to the partnership. Within the partnership, the LHA has 51% interest and the managing general partner has 49% interest.

## Financial Impact:

Sources and Uses	Terrance Lane	Southside Village	Totals
<b>Sources</b>			
HUD First Mortgage	5,100,000	5,100,000	10,200,000
LIHTC Equity	3,240,297	2,422,572	5,662,869
Grants and Soft Loans	2,650,000	1,750,000	4,400,000
Interim Income	320,787	538,029	858,816
<b>Total Sources</b>	<b>\$11,311,084</b>	<b>\$9,810,601</b>	<b>\$21,121,685</b>
<b>Uses</b>			
Construction Costs	4,998,900	5,018,815	10,017,715
Architect	183,911	179,901	363,812
Other Fees	82,687	83,000	165,687
Construction Interest	292,600	196,350	488,950
Contingency	504,810	466,662	971,472
Taxes, Insurance, Title, Financing	444,451	432,671	877,122
Legal, Organizational, Audit	219,420	196,985	416,405
Acquisition	2,407,800	1,196,048	3,603,848
Developer Fee	1,155,252	1,156,965	2,312,217
Add'l Non-Mortgagable Costs	1,021,253	883,204	1,904,457
<b>Total Uses</b>	<b>\$11,311,084</b>	<b>\$9,810,601</b>	<b>\$21,121,685</b>





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RAD Spotlight on Ilion, New York

U.S. Department of Housing and Urban Development

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## RAD Spotlight on Ilion, New York:

### A Small PHA Leverages Private Financing

The Ilion Housing Authority, in upstate New York, recently converted all 158 of its public housing units to long-term project-based vouchers (PBVs) under RAD. At the time of application to RAD, the agency estimated its immediate capital needs of just \$3,000 per unit, which it felt it could meet with existing operating reserves and unobligated Capital Fund proceeds. Consequently, its primary objectives in converting to RAD were to move to a more stable funding platform, one that would allow for a system of replacement reserve funding to pay for property needs as they accrue, and to simplify the agency's regulatory and operating environment. But, after award, as required under RAD, the agency commissioned a third-party physical needs assessment (PNA) that showed capital needs much greater than anticipated. These higher needs caused a shift in the agency's financing strategy.



"Initially, we were hoping to convert without any debt. But once the PNA came back, we knew we needed to obtain a first mortgage to finance some of these repairs," said Jeffrey McTiernan, Executive Director.

Ultimately, the total development budget (hard and soft costs) for these 158 units was \$3 million, or approximately \$19,000 per unit. The PHA funded about half of these costs with existing public housing funds and raised the balance in first mortgage proceeds, supported by RAD rents.

Although Ilion had no prior experience in financing affordable housing (it does not own other non-public housing and it has never participated in the HOPE VI or mixed-financing public housing programs), it was able to work with a local lender to secure favorable terms. "At first, we were concerned that things would be too complicated. But it was really not much different than taking out a loan on your own home," said McTiernan.

**In-place Rehab:** The agency's public housing includes three sites—London Towers, a 108-unit elderly hi-rise, Remington Park, a 32-unit family site, and Ilion Heights, a 20-unit complex. Work includes energy conservation measures, accessibility improvements, site-work and bathroom renovations (tubs, flooring, cabinets, and low-flow shower heads and aerators). Each family unit will have new awnings that will provide much better protection from rain and snow. The elderly hi-rise will have a new entrance awning that will provide residents with seating



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and protection from the weather, providing better comfort to residents as they wait for rides to various appointments. The hi-rise will also have modernized elevators and a new community room. Both complexes will have new parking lots and many new sidewalks. Importantly, because of the nature and sequencing of the work, the agency expects to avoid the need for any tenant relocation.

**Replacement Reserve Funding:** As part of its financing plan, the agency established an initial deposit for replacement reserves of about \$5,400 per unit and will set-aside almost \$1,000 per unit annually in replacement reserves, for a total of around \$25,000 per unit over 20 years in replacement reserve funding. Creating a system to fund future replacements was essential to the agency's plans to preserve these units long-term. "Because of the variability of congressional appropriations for public housing, it's very difficult for a public housing agency to conduct and carry out long-term capital planning. As such, we've always had to "patch" when what we really needed to do was "replace," which, of course, also increases our operating costs. But under RAD, we were finally able to catch-up, and now we expect to keep-up."

**Ownership and Control:** Because of the strong background of the agency and the authority's modest debt service payments relative to the net operating income, the lender did not require that the PHA create a new single-purpose entity, such as a non-profit subsidiary of the PHA, to own the project. Consequently, the Ilion Housing Authority will continue to own and operate the units post-conversion.

**Why RAD?** "The ability to leverage our assets to obtain private financing has provided us with a wonderful opportunity to really jumpstart many capital projects that would have taken us years to complete using the Capital Fund Program. This has allowed us to really put our focus back on our primary core skill, property management. We have a huge demand for affordable housing in our community. We're thrilled that we've been able to upgrade a tired asset and put it on solid financial footing for the future," says McTiernan.

## Financial Impact:

Operating Pro-forma		
Revenue	Total	PUM
RAD Rents	\$1,027,548	\$542
Vacancy Loss	\$14,386	\$8
Other Income	\$99,239	\$52
Effective Gross Income	\$1,112,401	\$587
Expenses		
Administrative	\$141,902	\$75
Tenant Services	\$5,005	\$3
Utility Expense	\$121,250	\$64
Ordinary Maintenance	\$342,790	\$181
Protective Services	\$1,178	\$1
Real Estate Taxes	\$40,000	\$21
Property Insurance	\$17,470	\$9
Liability Insurance	\$8,280	\$4
Other General Expenses	\$10,250	\$5
Total Operating Expenses	\$688,125	\$363
Replacement Reserve Deposit	\$151,000	\$80
Net Operating Income	\$273,276	\$144
First Mortgage Debt Service	\$125,405	\$66
Operating Cash Flow	\$147,871	\$78

Development Budget	Total	Per Unit
Sources		
Operating Reserves	\$579,968	\$3,742
Capital Funds	\$290,000	\$1,835
Flood Insurance Proceeds	\$392,000	\$2,481
Deferred Developer Fee	\$130,000	\$823
Operating Cash	\$309,802	\$1,961
First Mortgage Loan	\$1,300,000	\$8,228
Total Sources	\$3,001,770	\$18,999
Uses		
Construction Costs	\$1,385,758	\$8,940
Relocation Contingency	\$24,000	\$152
Professional Fees	\$52,966	\$335
Loan Fees and Costs	\$5,000	\$32
Initial Deposit to Replace-ment Reserve	\$855,000	\$5,411
Operating Reserve	\$270,000	\$1,709
Tax and Insurance Escrow	\$257,872	\$1,638
Misc. Fees/Costs	\$20,874	\$132
Developer Fees	\$130,000	\$823
Total Uses	\$3,001,770	\$18,999





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RAD Spotlight on Cambridge, Massachusetts

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## RAD Spotlight on Cambridge, MA:

### Combining RAD and Moving to Work

The Cambridge Housing Authority (CHA) was one of the first agencies in the country to be selected as a Moving To Work (MTW) Demonstration program participant. Since 1999, the agency has used its MTW authority to conceive, model, and implement reforms in the Housing Choice Voucher and public housing programs to: (1) reduce cost and increase administrative efficiency, (2) offer residents incentives for education and employment, and (3) increase housing choice.

MTW enabled reforms have yielded steady administrative savings in a variety of areas and substantially improved services to residents. Additionally, MTW has allowed CHA to completely revamp its energy profile and generate additional energy related savings. However, even with these efficiencies, the physical repair needs in public housing greatly exceed



available funding, thereby threatening long-term preservation. After an extensive planning process that unfolded over several years, involving multiple stakeholders, CHA decided to convert its entire public housing inventory to long-term project-based vouchers (PBVs) under RAD so that it could leverage the more than \$200 million in capital necessary to preserve those units.

“MTW has allowed us to “balance” our housing programs against a very difficult, high cost market. Our high rents make staying in Cambridge difficult even when we provide a family with voucher assistance and the out-migration of families is a concern, about 37% of our vouchers are already located outside of Cambridge. For CHA this means that we had to focus on a hard unit preservation strategy, keeping hard unit options in the City for low-income families. We considered preservation a necessary approach, but even with our MTW efficiencies and capital enhancement efforts we still couldn’t solve the long-term capital gap,” says Greg Russ, Executive Director. “Although all are stable properties, we have a lot of very old buildings and many outdated building systems. We also have very high construction costs in the Boston area. We needed to find a vehicle to finance these improvements over time, just like other owners of affordable housing. The long-term Section 8 project-based assistance contracts under RAD were the essential tool we needed to pull it off. At the same time, by converting to PBVs, we were able to maintain our MTW occupancy reforms, which provide both tenant protections and options for assisting residents on the road to self-sufficiency.”

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**Developing a Portfolio Strategy:** The CHA was interested in a whole-agency solution, not just a fix for a handful of properties. Ultimately the agency decided to convert all 2,133 public housing units in three phases.

- The first phase, including five properties and 441 units, is expected to close later this year. Four of these properties, with 319 units, were previously redeveloped using ARRA or HOPE VI along with Low Income Housing Tax Credit (LIHTC) funding and, therefore, can quickly and easily be converted from the public housing subsidy model to the project-based RAD subsidy model. Putnam Gardens, the fifth property, is a 122-unit family housing development that will be redeveloped through a 4% LIHTC transaction.
- The second phase, covering four properties and 709 units, is scheduled to close in 2015. All of these properties will be redeveloped using 4% LIHTCs.
- The final phase includes the remaining nine projects, totaling 983 units, and will close in late 2015 or early 2016. These properties will also be redeveloped using 4% LIHTCs.

The agency decided to phase the work in the above manner in order to ease the impact on staff and residents but also to ensure the availability of tax-exempt bonds (see below). Altogether, the agency anticipates the total construction activity will exceed \$200 million, or about \$95,000 per unit.

**Continued PHA Ownership:** The CHA has extensive experience in developing affordable housing using tax credits and will create new single purpose legal entities to own all of the public housing developments converting to PBV subsidies. As with its other tax credit transactions, the CHA, through one of its non-profit affiliates, will act as the sole managing member of those partnerships and will also continue to manage the properties.

**Tax-exempt Bond Financing:** In order to receive 4% tax credits, a project must use tax-exempt bond financing. The CHA has received approval for an allocation of tax-exempt bonds issued by MassDevelopment to finance the construction of all properties in its first two phases. When the projects convert from construction financing to permanent financing, those bonds will be paid off (with new permanent financing) and the properties will receive 4% tax credits. In the coming months, the CHA will submit financing applications for the properties in the final phase.



**Relocation Planning:** Due to the level of construction required, apartments must be vacant at two developments (one in Phase 1 and one in Phase 2). CHA has worked closely with residents at both developments as well as housing advocates to craft relocation plans to minimize the impact construction will have on residents. Both Relocation Plans include detailed phasing schedules and allow residents to choose to stay on-site during construction, move to another CHA site or utilize a mobile HCV voucher. For those households who choose to move off-site, an option to move back to their development after construction is guaranteed.

**MTW Reforms:** MTW agencies have two critical decisions under RAD. First, they must choose the form of conversion. They can either convert to project-based rental assistance (PBRA), which is administered by the Office of Housing, or they can convert to PBVs, which is administered by the Office of Public and Indian Housing. If they convert to PBRA, they must give up their MTW status. But if they convert to PBV, they can remain as an MTW agency and retain their MTW rent and occupancy freedoms (provided they are not in conflict with RAD). Second, because MTW agencies have single fund flexibility, “fungibility,” across public housing and voucher accounts, MTW agencies can supplement the RAD contract rents with their MTW funding, provided they continue to serve the same number of families and provided they otherwise don’t exceed the RAD rent caps.

“Clearly, we wanted to continue our MTW rent and occupancy reforms,” said Russ. “Consequently, PBVs made the most sense. Using MTW allowed us to address resident and advocate concerns that RAD might somehow compromise tenant protections so we are migrating most of our public housing occupancy policies and the lease into RAD. So we have this extra policy benefit of MTW plus we can use MTW single fund flexibility to increase the RAD contract rents, allowing us to leverage more private debt and equity while at the same time serving the same number of families. It’s a win for everyone.”





# RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Broward County, Florida

U.S. Department of Housing and Urban Development

*Secretary Julián Castro*

## RAD Spotlight on Broward County, FL:

### Effective Resident Engagement is Key to Successful Conversion

The Broward County Housing Authority (BCHA) is in the process of converting its entire public housing inventory to RAD, totaling 374 units. The first two developments were converted in May 2014 and the remaining developments are expected to close this fall. For the agency, some of the major reasons for converting include: creating a more stable funding platform, developing a system of replacement reserve funding that will allow it to preserve its assets over the long-term, and reducing the regulatory burden. Ultimately, these changes are anticipated to translate into better housing for residents. Effective resident engagement and outreach has been key to the agency's conversion efforts.

#### Initial Resident Outreach

Prior to submission of a RAD application, a PHA is required to hold two meetings with the residents of each affected property. Rather than simply seeing this task as a requirement that needed to be "checked off," BCHA embraced the notion of getting feedback into the agency's plans. The first BCHA applications were for conversion of two senior housing developments. BCHA felt that these conversions necessitated a higher level of opportunity for resident feedback because of the needs of the population. BCHA decided to conduct the Resident Advisory Board Meetings at the senior sites to obtain comments and recommendations on the Annual Plan. Having the meetings at these sites in particular, assured maximum resident involvement and afforded the best opportunity for involved seniors to participate in the discussion.

In addition to holding the required meetings at each site specifically addressing RAD, BCHA included the topic in monthly resident meetings. At the RAD kick-off meeting, BCHA used a PowerPoint presentation to explain the basics of the conversion process and how residents would be affected. At each monthly site meeting, from the time of initial application until the RAD closing, conversion was continuously discussed. In this way, BCHA was able to reach the maximum number of residents.

Notices regarding RAD and changes to the lease were mailed to each resident. They were discussed in the resident meetings and posted on the bulletin boards at each site with a draft copy of the lease. The notices advised residents to speak with management staff about their questions and to review the new lease. Staff was regularly updated about the application progress so that they could answer questions and respond to residents' concerns.



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### **Responding to Resident Concerns:**

- During the initial planning meetings, residents voiced a number of concerns. They asked about relocation, with some residents fearful that they would be displaced. Other residents wondered if RAD would provide them with an opportunity to move, as they had seen some of the successful relocations BCHA had guided during earlier redevelopment efforts. BCHA staff worked throughout the process to both allay residents' fears and carefully explain the mobility options available.
- Residents asked if they would be paying higher repair costs, whether the agency would continue to maintain the units and developments in the same high standard as adhered to under the Public Housing program, and if planned improvements and repairs to units would be abandoned or would take place as planned. Staff advised residents that the same high standards would be maintained and would not be reflected in increased fees to residents.
- Concerns about lease enforcement were significant with residents questioning whether protections afforded under the Public Housing program would continue under RAD. Staff advised residents that the protections would not change, that all affected residents would have a right to return to renovated units, and that BCHA planned to implement the RAD conversion in way that would continue to protect resident rights and respond to resident concerns.
- The residents on flat rent were among the most concerned about the RAD conversion. BCHA reassured these residents that conversion to RAD would often result in the resident paying less or having a smaller increase in their rent than they would have had if the property remained as part of the public housing inventory.
- Staff recognized that some residents might not feel comfortable raising their concerns in a group setting. To deal with this issue, BCHA provided a question/concern form at the end of each meeting that could be returned to management or dropped off in the site suggestion box. In this way, staff was able to address individual questions and concerns outside of the meeting forum.

### **Continued and Ongoing Engagement**

Once the agency received its awards under RAD, it was required to hold a third meeting with residents in order to inform them of the PHA's acceptance into the program and "next steps." BCHA has continued to have multiple, ongoing resident meetings to inform them of the progress of the program and the impacts on each project. To bring about more transparency, the agency also kept residents informed by discussing RAD informally at every opportunity. By responding to resident concerns as they arise, whether in monthly meetings, during meetings with management or at other times, staff continues to keep residents engaged and to involve them as much as possible throughout the entire conversion process.



### **From "Partial" to Full-Agency Conversion**

Since 2004, BCHA has redeveloped four public housing sites via the demolition/disposition model. Finding themselves in a situation where the remaining properties did not meet criteria for demo/dispo, there appeared to be no reasonable way to fund ongoing rehab and replacement needs. To continue the high level of service to residents BCHA knew it had to find an alternative. The Rental Assistance Demonstration seemed to be an excellent potential alternative to preserve public housing units.

The initial assessment of the portfolio, based on the information available at the time, revealed only two properties were feasible for conversion. BCHA submitted these applications during the competitive process and both were approved. As they proceeded through the financing process, it was decided that a reevaluation of the entire portfolio should be done. That evaluation revealed that all of BCHA's public housing developments were feasible for conversion. Quickly applying for the portfolio award to get in under the 60,000cap, BCHA was ultimately successful.

"Our residents were involved in the process throughout. We addressed all their concerns and assured them that in the end, this would be positive for all concerned. We feel that it has been a win for the agency and especially for the residents."

Beth Kincey, BCHA Chief Operating Officer





# RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Montgomery County, MD

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## RAD Spotlight on Montgomery County, MD: Conversion in a High-Cost Area

Over the years, the Housing Opportunities Commission (HOC), the public housing agency for Montgomery County, Maryland, has been a leader in efforts to build and preserve affordable housing, including such initiatives as inclusionary zoning, which ensures access to affordable housing for low- and moderate-income families. Continuing with this tradition, HOC is now converting its entire public housing stock to long-term Section 8 assistance under RAD.

### The Challenges of Providing Affordable Housing in a High-Cost Area

HOC has struggled with the long-term economic viability of an aging public housing stock that, if lost, would be nearly impossible to replace given the high cost of housing in Montgomery County. The average rent for a 2-bedroom unit in the county is about \$2,000/month and the median sale price for a single-family home is \$432,000. Preservation of affordable housing, therefore, is a major concern in Montgomery County. To preserve access to affordable housing, HOC needed a way to leverage the value of its current assets—namely, the value of its land, which has increased substantially over the last several decades.

HOC was particularly attracted to RAD because of the flexibility given to PHAs to structure deals in a way that takes into account the specific needs of each PHA and property. For HOC, this was the ability to leverage the underlying value of its assets. Altogether, HOC expects to raise \$108.6 million in private debt and equity through its RAD conversions – a ratio of \$14 dollars in non-public housing funds to every dollar in public housing funds. When the RAD conversion is complete, the agency will preserve 877 public housing units (converted to Section 8 project-based assistance) and will have developed about twice that number of new affordable and market units. By combining substantial rehab of some properties with new construction and transfers of assistance, HOC is able to take advantage of the underlying value of the land and reposition its public housing portfolio under RAD.

The RAD conversion is a crucial part of HOC's updated mission to focus on improved senior housing, remove the stigma of public housing, reduce resident utility expenses through increased energy efficiency, expand housing availability geographically, and generate jobs and opportunities for the county's residents.



### WHAT IS RAD?

The **Rental Assistance Demonstration (RAD)** allows public housing agencies (PHAs) and owners of HUD-assisted properties to convert units to project-based Section 8 programs, providing an opportunity to invest billions into properties at risk of being lost from the nation's affordable housing inventory. The "first component" of the program allows properties funded under the Public Housing and Section 8 Mod Rehab programs to convert their assistance to long-term, project-based Section 8 contracts. The "second component" of RAD allows owners of projects funded under HUD's legacy programs (Rental Supplement, Rental Assistance Payment, and Moderate Rehabilitation) to convert units to Section 8 project-based vouchers.

The 1.2 million units in the Public Housing program have a documented capital needs backlog of nearly \$26 billion. As a result, the public housing inventory has been losing an average of 10,000 units annually through demolitions and dispositions. Meanwhile, the 38,000 units assisted under HUD's legacy programs are ineligible to renew their contracts on terms that favor modernization and long-term preservation. The current conditions of many of these properties inhibit investment and recapitalization efforts in the communities with the most need. By drawing on an established industry of lenders, owners, and stakeholders, RAD allows PHAs and owners of HUD-assisted housing to preserve and improve affordable housing units that could be subject to vouchers and demolition. RAD creates greater funding certainty while allowing increased operational flexibility to empower PHAs and owners to serve their communities.

As of October 2014, 68 RAD applications have closed, covering some 6,048 units and representing over \$150 million in new investment. PHAs have submitted over 1,000 applications covering close to 185,000 units. RAD's initial statutory authority set a cap of 60,000 units of public housing and Mod Rehab housing that could seek to convert under RAD's first component. PHA demand exceeds RAD's current authority and HUD has requested that Congress lift the cap on eligible units to allow more PHAs to participate in the program.

## HOC's Portfolio Approach

Taking advantage of high land values in Montgomery County to help raise debt and equity, HOC is pursuing three “repositioning” strategies for its public housing portfolio under RAD:

- **Substantial Rehabilitation:** These are mostly elderly high-rise buildings in highly-desirable locations (due to proximity to transportation options and community services) that need only to be renovated and where the site does not present other redevelopment opportunities.
- **Demolition and On-site Reconstruction:** These are properties that are located on or near major public transportation centers where there are opportunities for larger redevelopment and where local zoning allows for higher densities to encourage transit-oriented development. In these cases, the development of market-rate units helps subsidize the cost of demolishing the existing public housing units and the construction of new units.
- **Transfers of Assistance:** Assistance will be transferred either to existing properties owned by HOC (but not currently subsidized) or to sites that will involve new construction. Once again, one of the keys here is utilizing the underlying land values to generate additional development proceeds.

Initially, HOC focused primarily on rehabbing existing units. But, with RAD, the HOC team realized that they had many more development options. As a result of its RAD conversion, HOC moved subsidies around to best meet local needs. HOC can make substantial rehabilitations, if appropriate, but it can also take advantage of the inherent value of its assets to replace with new

### Elizabeth House:

Elizabeth House is just one example of HOC's portfolio approach. The property is located in downtown Silver Spring, just north of Washington, D.C., an area which has undergone a considerable resurgence with the addition of high-density residential, major retail, and office complexes, including a transit hub with bus, Metro subway, and commuter train rail services. Elizabeth House is a 49-year old, 160-unit senior high-rise building that has considerable maintenance and repair needs and lacks modern living spaces and amenities. The underlying value of the land is \$12 to \$15 million. Once residents are relocated to other updated units within HOC's portfolio, the building will be razed and in its place, HOC will construct a new, taller high-rise building with 500 modern mixed-income living spaces, increased ADA accessibility, new amenities, and energy efficiency utility savings.

construction (in mixed-income settings) or acquisition. RAD opened up many possibilities for HOC to both preserve its public housing portfolio

and to create additional affordable housing options.



## The Need to Preserve Affordable Housing

HOC is using RAD to renovate and rebuild its portfolio. HOC will rehabilitate most of its public housing properties, but for those that require new construction, HOC will take advantage of the value of the land to finance the construction of new affordable housing. Reinvestment in HOC's properties achieves a more efficient use of scarce resources in a setting where the cost of acquiring land is soaring. Occupancy rates across all rental properties in Montgomery County are very high. Even less desirable properties and locations consistently maintain vacancy rates at or below 10%. The constraints on developing a new supply of housing in the County, particularly affordable housing, are severe. Many of HOC's properties represent the majority, if not all, of the affordable units in certain zip codes. Even if HOC's residents had portable Housing Choice Vouchers that pay 95% of Fair Market Rents, it is unlikely that they could find housing with locations and quality comparable to HOC's post-renovation RAD properties.

Preservation of these units provides low- and moderate-income households with access to the types of up-to-date amenities found at newer properties, and results in reduced utility costs due to increased energy efficiency, and reduced transportation cost burdens due to locations in walkable communities. Moreover, these renovations include dramatic improvements that ensure the long-term sustainability of the properties themselves.

“RAD represents a generational opportunity to preserve, expand and improve the quality of affordable housing in a manner that is financially sustainable. While optimal solutions may differ from one jurisdiction to another, RAD offers the tools necessary for PHAs to transform the nation's public housing stock for the next generation and beyond.” - Stacy L. Spann, Executive Director



# RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Haverhill, Massachusetts

U.S. Department of Housing and Urban Development

*Secretary Julián Castro*

## RAD Spotlight on Mission Towers: A Second Component Preservation Project

Mission Towers is a 117-unit elderly high-rise project in Haverhill, Massachusetts. The project was built in 1974 under the Section 236 program by Bethany Community Services, Inc., a local non-profit affordable housing provider with century-old roots in the community. Similar to other HUD-assisted properties, Mission Towers faced a large capital repairs backlog in addition to an expiring rental assistance contract under the Rental Supplement (Rent Supp) program, both of which threatened Bethany Community Services' ability to continue to provide quality and affordable housing to its residents. RAD's second component presented Bethany Community Services with, as Jered Stewart, President and CEO of Bethany Community Services states, "just the fix for both."

### RAD Eligibility

The Section 236 program was created in 1968 to help promote the development of affordable housing. It offered developers a reduced interest rate to subsidize debt service costs, effectively operating as a subsidy to the developer to reduce the cost of the project and thus the rent levels needed to support it. Many Section 236 projects were assisted with a Rental Assistance Payment contract. Mission Towers received rental subsidies under the Rent Supp program for 30 units, both to stabilize the finances of the property, and to increase its affordability for low-income seniors. The Rent Supp program was, essentially, a precursor to the Section 8 rental assistance program; however, the subsidy contract was only for a fixed annual amount. Therefore, over the years, as tenant incomes dropped, and as rents increased, the Rent Supp subsidy served fewer and fewer households, placing the long-term affordability of these units in jeopardy.

When a Rent Supp contract terminates due to expiration or mortgage prepayment, HUD has no authority to offer long-term extensions of the rent subsidy. As a result, all eligible residents of the property will have the opportunity to obtain Section 8 Tenant Protection Vouch-

ers (TPVs). "Although we knew that the tenants would receive TPVs, we were deeply concerned about the loss of hard units. We wanted to find a way to preserve Mission Towers as affordable housing for years to come," says Stewart.

Under RAD's second component, owners of expiring Rent Supp contracts can choose to convert the TPVs that will be issued to resi-

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dents at contract expiration or termination to project-based vouchers (PBVs). In this way, the owners can preserve their projects as assisted housing. In order to convert under the RAD second component, the owner signs a 15-year housing assistance payment (HAP) contract. The RAD program's guidelines on project-basing of TPVs allow properties to convert in a way that meets the specific repair and affordability needs of their communities.

### Resident Outreach

As required under RAD, Bethany Homes held community meetings to inform residents of the plan to convert to RAD, and outlined the policy changes that would come with the conversion. Residents were eager to have their community preserved. "The residents at Mission Towers are an extremely happy group of people," Stewart says. "We take a lot of pride in providing a clean and safe environment and the residents take pride in their community. No one wants to leave."



### The Conversion Process

In January 2014, Bethany Homes prepaid the Section 236 mortgage, triggering the issuance of the TPVs for the eligible units. Bethany Homes applied for RAD on January 16, 2014. The following month, the RAD conversion was approved, and the new RAD HAP contract was executed on March 15, 2014.

Bethany Homes worked closely with the Haverhill Housing Authority (HHA), which will administer the PBV contract. As per PBV rules, the HHA will now maintain the waiting list, conduct tenant reexaminations, and oversee the Section 8 HAP contract. Prior to conversion, Bethany Homes had never worked with a public housing authority and they were concerned about meeting all of the conversion requirements on a tight timeline. "The turnaround was extremely quick, and it was a lot to ask of the HHA," said Stewart. "But HHA staff got right down to work. We were – and continue to be – quite impressed with the

HHA."

The conversion process forged a strong working relationship between the HHA and Bethany Homes, which has served both parties well as they continue to work together on day-to-day program administration.



### Greater Affordability

Since the Rent Supp contract covered roughly a quarter of the units at the property, many of the very and extremely low-income residents faced severe rent burdens. Following the RAD conversion, many of the households at Mission Towers are now experiencing lower rents.

"Nearly all of the households who were not covered by the Rent Supp contracts saw their rents go down," said Stewart. "The rents on their units were below market for Haverhill, but residents were paying more than 30% of their income towards rents. Some residents saw small decreases, but others are saving over a hundred dollars a month."

### Making Capital Improvements

Unlike the public housing properties that convert under RAD's first component, projects converting under RAD's second component are not required to submit a financing plan at the time of conversion. Rather, the goal is to get these projects under a long-term PBV contract as soon as their Rent Supp contracts expire, provided the units meet Housing Quality Standards (HQS). Once converted, most of the owners then plan to refinance the property to address repair needs.

In the case of Mission Towers, Bethany Homes plans to refinance the property to perform significant capital improvements, including new roof, masonry repairs, energy improvements, kitchen and bath upgrades, and new appliances.

The RAD conversion has allowed Bethany Homes to further its long-standing commitment to the community of Haverhill, now in partnership with a highly-capable PHA.

"Mission Towers is a hugely important affordable housing asset in Haverhill. We needed a way both to preserve its affordability but also undertake some much needed capital repairs. RAD was just the fix for both."

- Jered Stewart, Bethany's President & CEO.